HB 1712

Department of Legislative Services

Maryland General Assembly
2006 Session

FISCAL AND POLICY NOTE

House Bill 1712 (Delegates D. Davis and McHale)
Economic Matters

Electric Restructuring - Standard Offer Service - Regulated Service

This emergency bill provides for the regulation of standard offer service (SOS) by the Public Service Commission (PSC) and also increases the annual funding for the Electric Universal Service Program (EUSP) from $34 to $40 million. The additional $6.0 million is collected from a portion of an electric utility's administrative charge which is included in SOS rates.

Fiscal Summary

State Effect: The Department of Human Resources (DHR) EUSP fund revenues would increase by $6.0 million annually beginning in FY 2007. Statewide utility expenditures could decrease.

($ in millions)	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
SF Revenue	$6.0	$6.0	$6.0	$6.0	$6.0
GF/SF/FF Exp.	(-)	(-)	(-)	(-)	(-)
Net Effect	$6.0	$6.0	$6.0	$6.0	$6.0

Note:() = decrease; GF = general funds; FF = federal funds; SF = special funds; - = indeterminate effect

Local Effect: Local government expenditures for electric utilities could decrease to the extent that PSC requires the reduction in proposed rate increases.

Small Business Effect: Potential meaningful as electric utility expenses could decrease to the extent that PSC requires a reduction in proposed rate increases.

Analysis

Bill Summary: SOS terms, conditions, and rates must be authorized by PSC in the same manner as a regulated public service. The regulation of SOS must include phased implementation of electricity rates as needed to protect customers from the impact of sudden and significant increases in electricity rates. The expiration of the requirement to offer SOS is repealed and an electric company is authorized to produce the electricity needed to meet its SOS supply obligation. If an electric company chooses to produce electricity to supply SOS and in order to do so reacquires a generating station previously transferred to an affiliate or sold, the cost of reacquisition may not be passed onto SOS customers.

Current Law:

Electric Deregulation

As of July 1, 2000, all customers of electric companies have the opportunity for choice of electric suppliers. However, a customer has the option to remain with the supplier of the electric utility under SOS. Any obligation of the electric company to continue to offer SOS expired on July 1, 2003 unless PSC found that the market was not competitive. Then PSC could extend the requirement to provide SOS to residential and small commercial customers at a market price that permits recovery of the verifiable, prudently incurred costs to procure or produce the electricity plus a reasonable return. PSC is to reexamine whether the market is competitive annually. An electric company may procure the electricity needed to meet its SOS from any electricity supplier, including an affiliate of the electric company.

EUSP for Energy Cost Assistance

Chapters 3 and 4 of 1999 required PSC to establish a continuing, nonlapsing EUSP fund to help electric customers with annual incomes at or below 150% of the federal poverty level. DHR is required to administer the program through the Maryland Energy Assistance Program within the Office of Home Energy Programs (OHEP). DHR may contract with a for-profit or nonprofit Maryland corporation existing as of July 1, 1999 to help administer the program. PSC is responsible for overseeing the program. The universal service program includes: (1) bill assistance, at a minimum of 50% of the individual's need; (2) low-income weatherization; and (3) retiring arrearages.

PSC determines a fair and equitable way of allocating electric customers' charges among all customer classes. The total funds collected for the universal service program are $34 million annually: $24.4 million from the industrial and commercial classes; and $9.6

million from the residential classes. At the end of the fiscal year, any unspent funds collected during that year must be made available for disbursement during the first three months of the next fiscal year to customers who qualify for assistance during the prior fiscal year, apply for assistance from the fund before the end of the prior fiscal year, and remain eligible for assistance when services are provided. PSC can give an additional three-month extension to DHR to disburse the unspent funds. Any unspent funds that remain unspent at the end of the allowable period must revert back to each customer class in proportion to their contributions.

Background: In settlement agreements with each of the State's investor-owned utilities, PSC has extended the obligation to provide SOS. The Electric Customer Choice and Competition Act of 1999, required price caps with statewide rate reductions for four years which could be extended by settlement agreement. Under the final settlement agreements, the price caps required under the Electric Utility Restructuring Act of 1999 expired in PEPCO and Delmarva service territories on July 1, 2004, and are scheduled to expire in the BGE service territory on July 1, 2006, and in the Allegheny service territory on January 1, 2009. Because there continues to be little competition in residential electric service in the State, PSC has extended the obligation to provide SOS in the PEPCO, Delmarva, and BGE service territories by four years after the expiration of the price caps.

Included in the settlement agreements, SOS rates after the rate caps expire include a component for an administrative charge. The total administrative charge for residential customers is $0.004 per kilowatt hour. The components of the total administrative charge are: (1) $0.0015 for the utility reasonable rate of return; (2) $0.0005 for incremental costs; and (3) $0.002 for administrative adjustment. The administrative charge for commercial customers is the same except the profit component is different. For small and medium commercial customers it is $0.002 and for large commercial customers it is $0.0025. The incremental charge allows for uncollectible costs such as consultants, auction and procurement costs, and public educational materials that *cannot* be recovered in a utility's distribution rate. The administrative adjustment is used to adjust the cost of SOS while holding harmless customers through a commensurate credit. It increases the price competitors must outbid, which the settling parties assert will assist the development of a competitive generation market.

State Revenues: This bill increases EUSP fund revenues by $6 million annually. While this is an emergency bill, it is assumed for the purposes of this fiscal estimate that the additional revenues would not be collected until fiscal 2007. The increase in EUSP revenue is to be achieved through an increase in assessments on the electric utilities of $6 million derived from a portion of the SOS administrative charge.

State Expenditures: State utility expenditures could decrease to the extent that the regulation of SOS reduces the proposed increase in utility rates. The bill requires PSC to phase in implementation of electricity rates as needed to protect customers from the impact of sudden and significant increases in electricity rates, thus giving PSC discretion in the application of determining sudden and significant. The regulation of SOS applies to rates for both residential and commercial customers who participate in SOS. Any actual decrease in utility costs cannot be reliably estimated at this time.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): Department of Human Resources, Public Service Commission, Office of People's Counsel, Department of Legislative Services

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